

Macroeconomy and Agriculture in Perspective

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The views expressed here are those of the speaker and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.



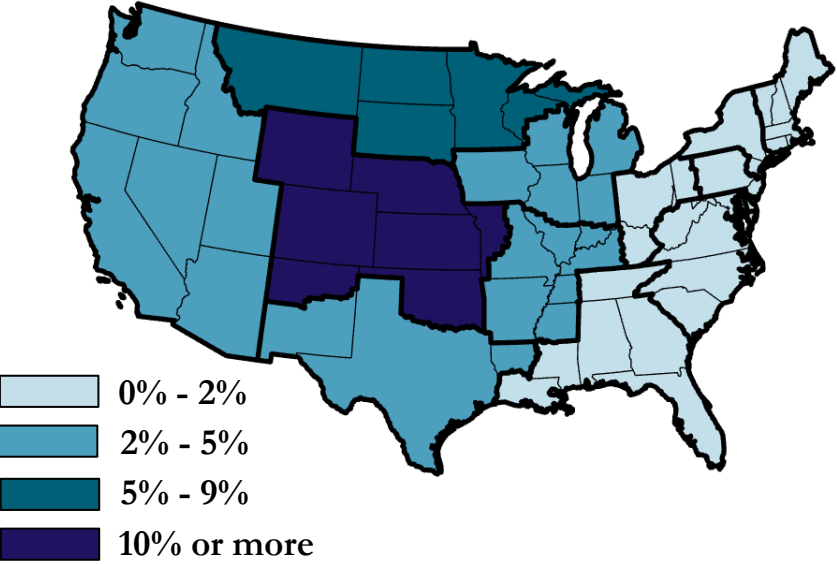
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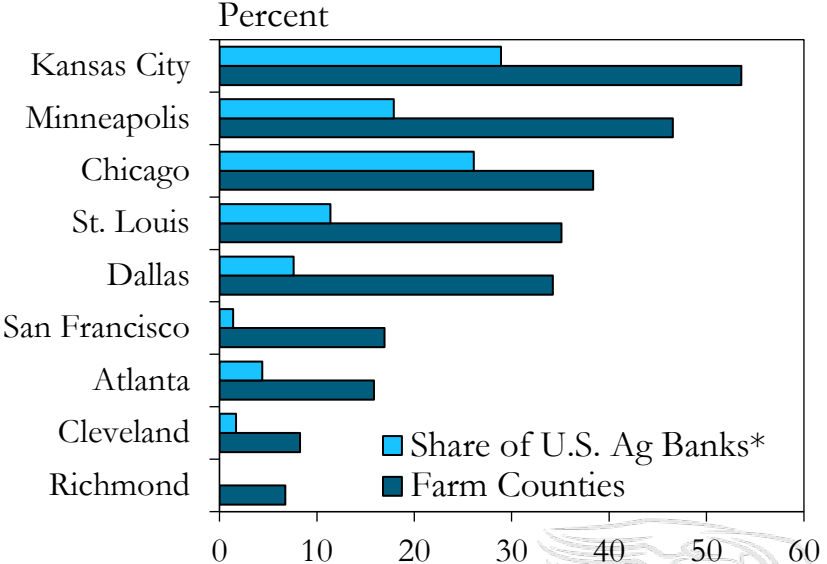


The Federal Reserve regularly incorporates ag perspectives in its policy deliberations.

Farm Income as a Share of Total Personal Income (2010-2020)



Agricultural Banks and Farm Dependent Counties



Note: Farm income is shown as a share of total personal income, averaged across all counties in each respective Fed District.

Sources: BEA, USDA, Federal Reserve Bank of Kansas City and staff calculations

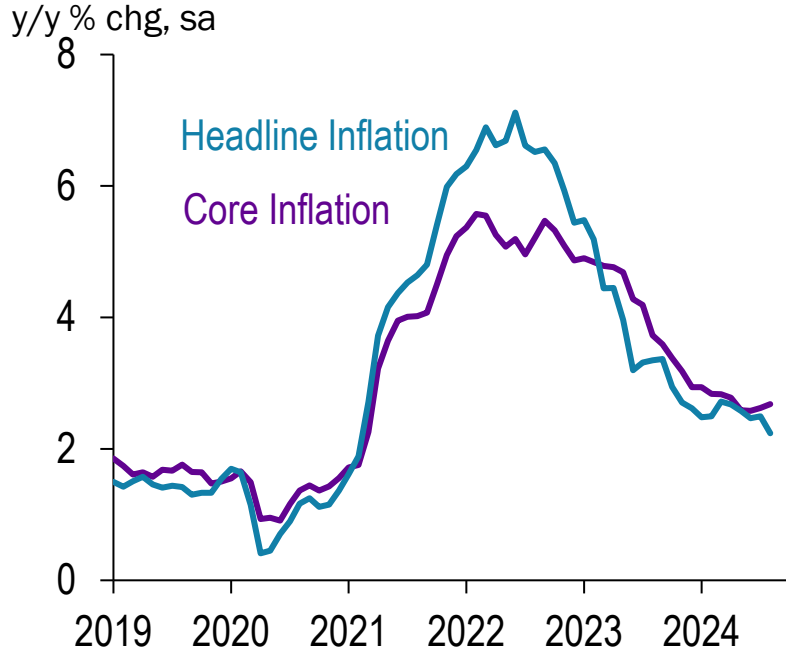


Themes

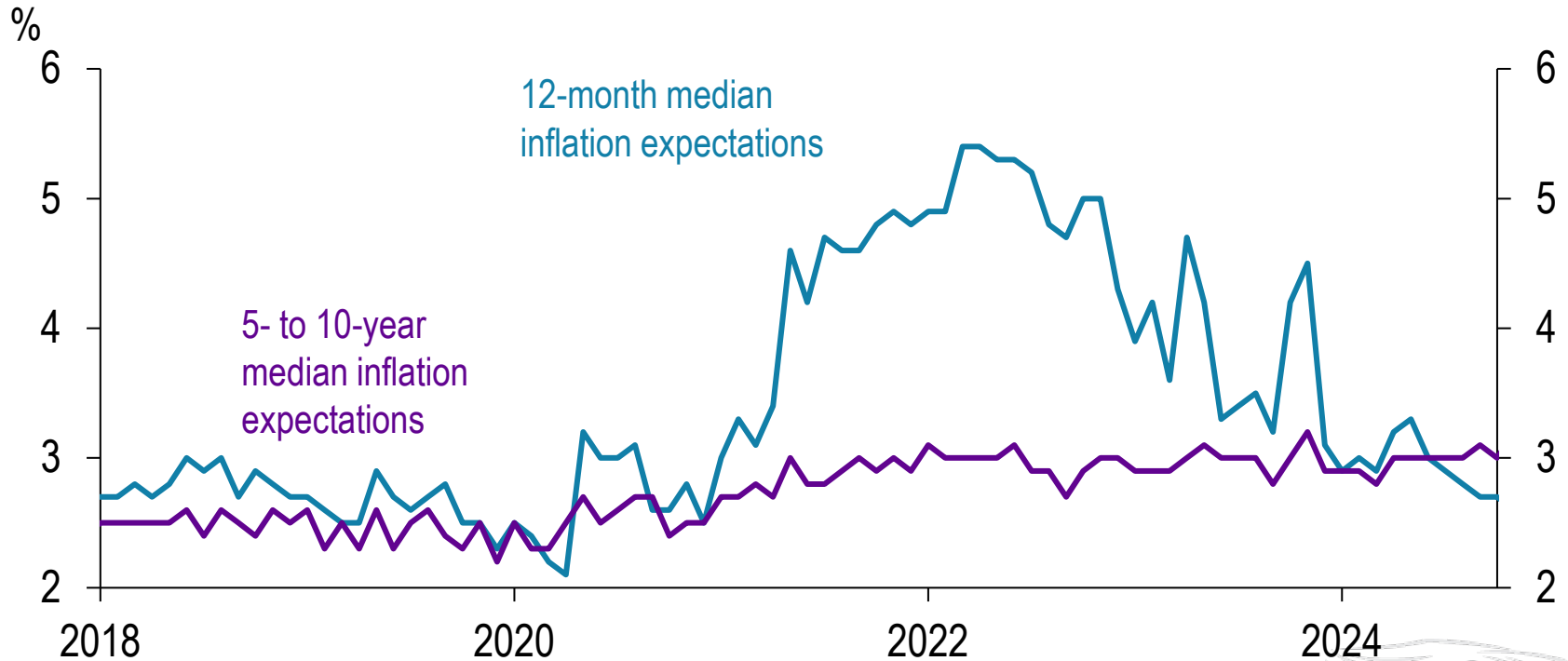
- Headline inflation has come down amid restrictive monetary policy and there is growing confidence that inflation is reaching a sustainable path.
- The U.S. economy remains strong, U.S. labor markets are in better balance, and wage inflation is trending down.
- The ag economy is resilient despite lower ag prices and higher costs.
- There are several short- and long-term risks for the outlook of the ag economy.



Inflation has eased from high levels.

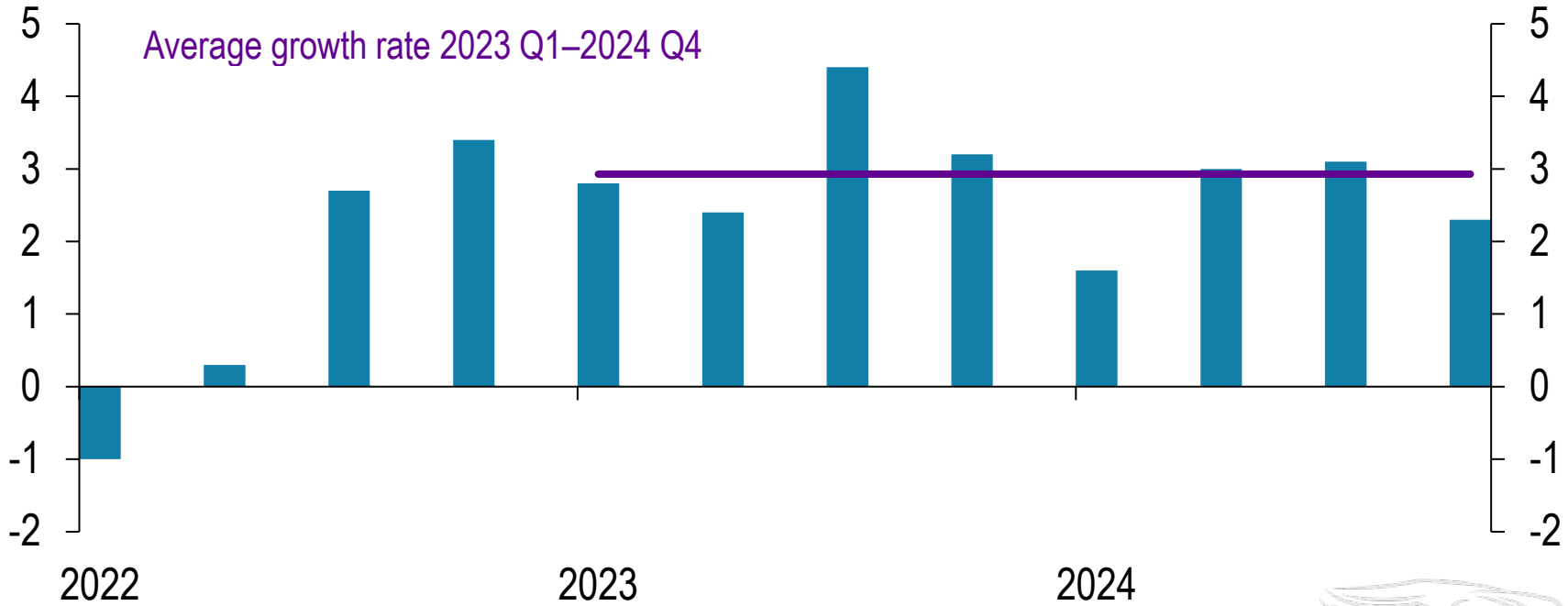


Long-term inflation expectations have remained anchored.

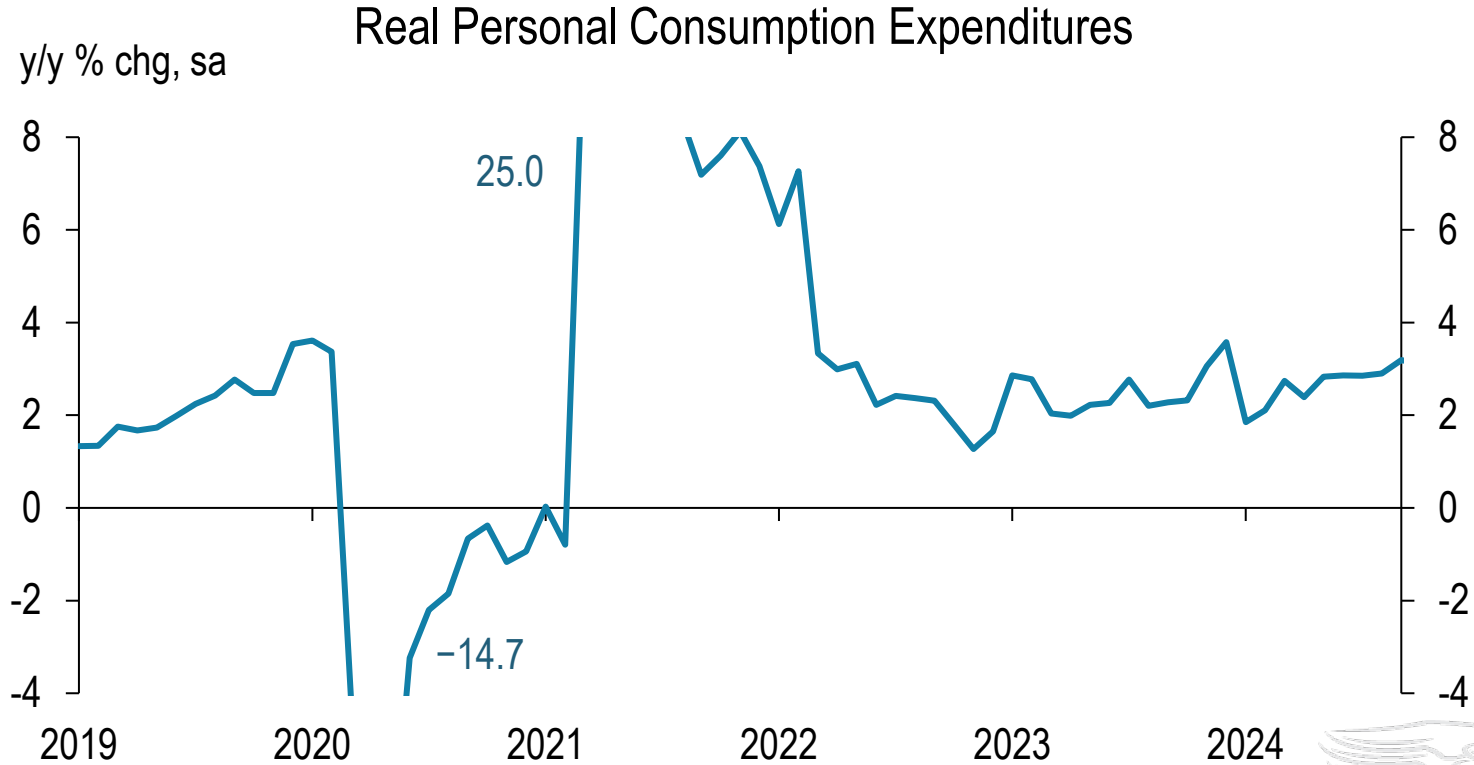


U.S. real GDP growth has exceeded expectations.

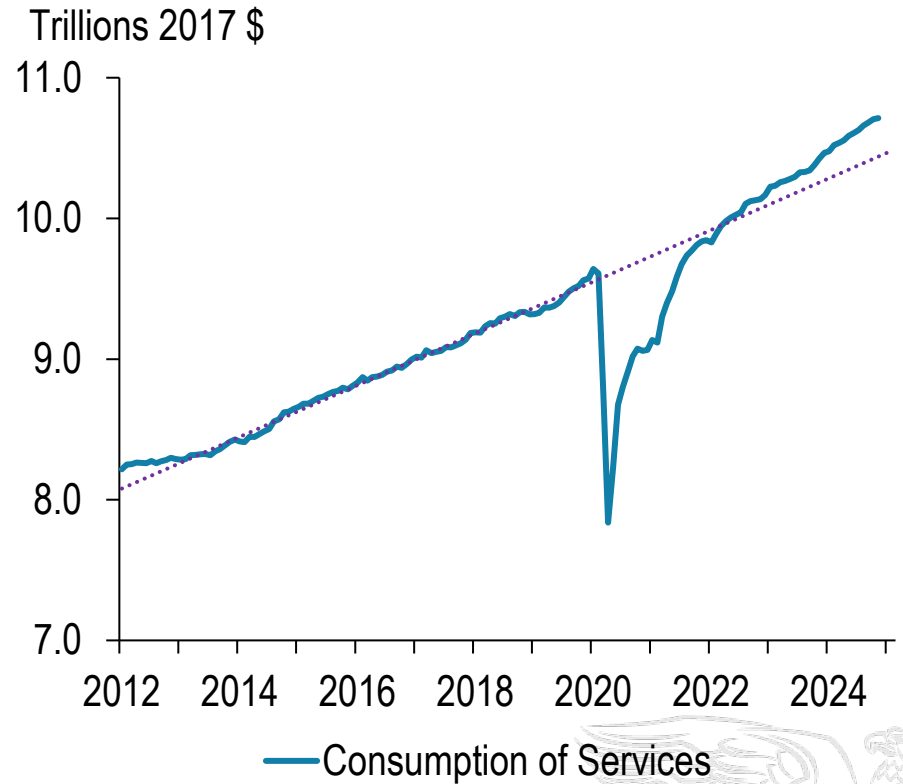
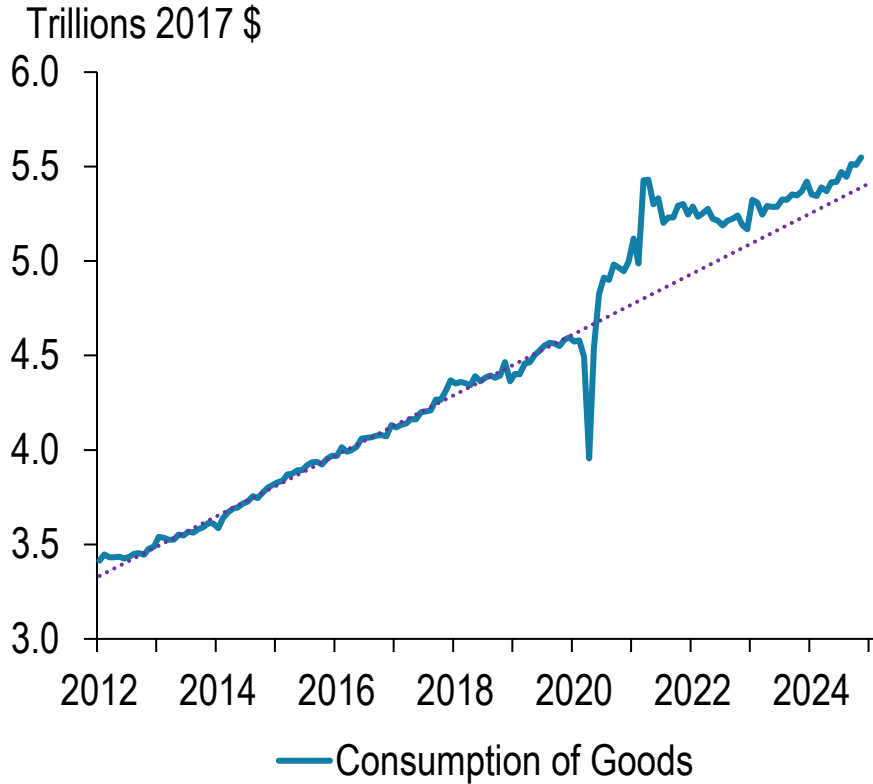
q/q % chg, saar



Consumption growth has softened but remains strong.



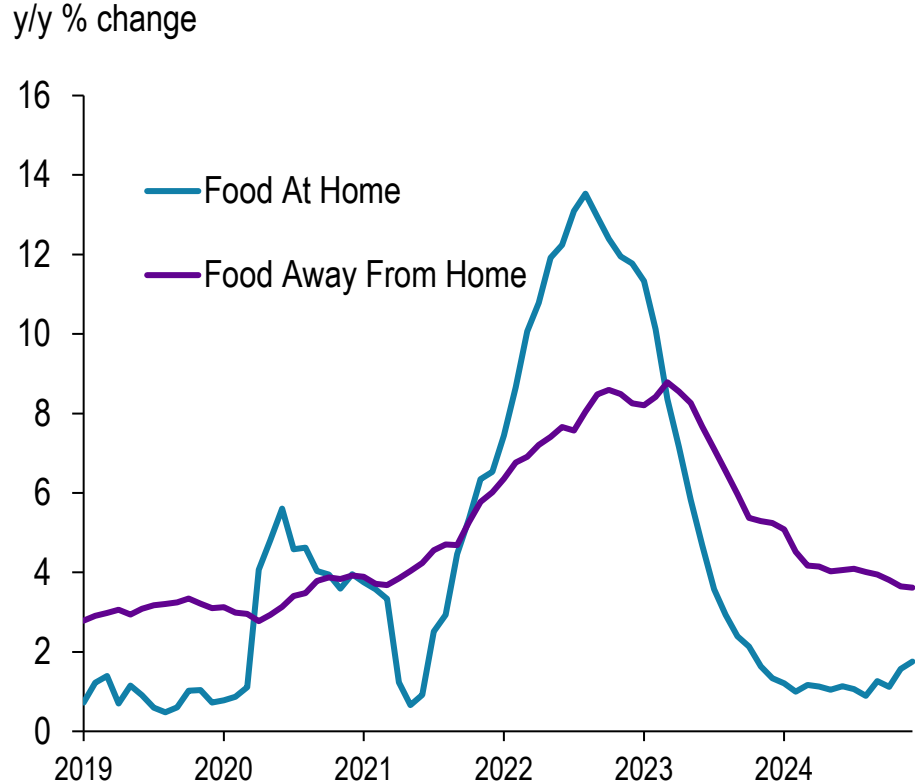
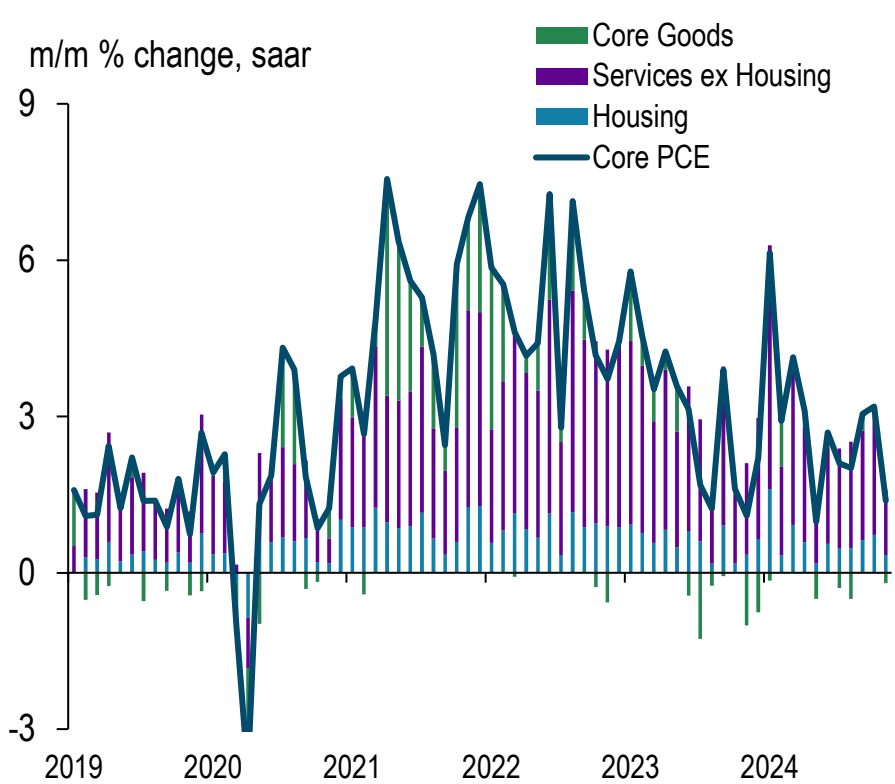
Consumer spending on goods and services remains firm.



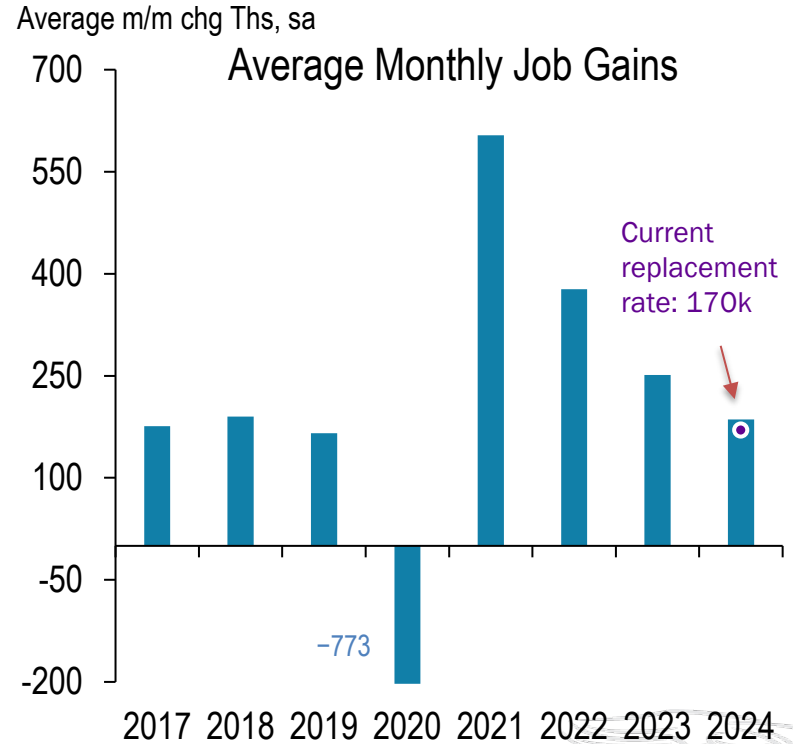
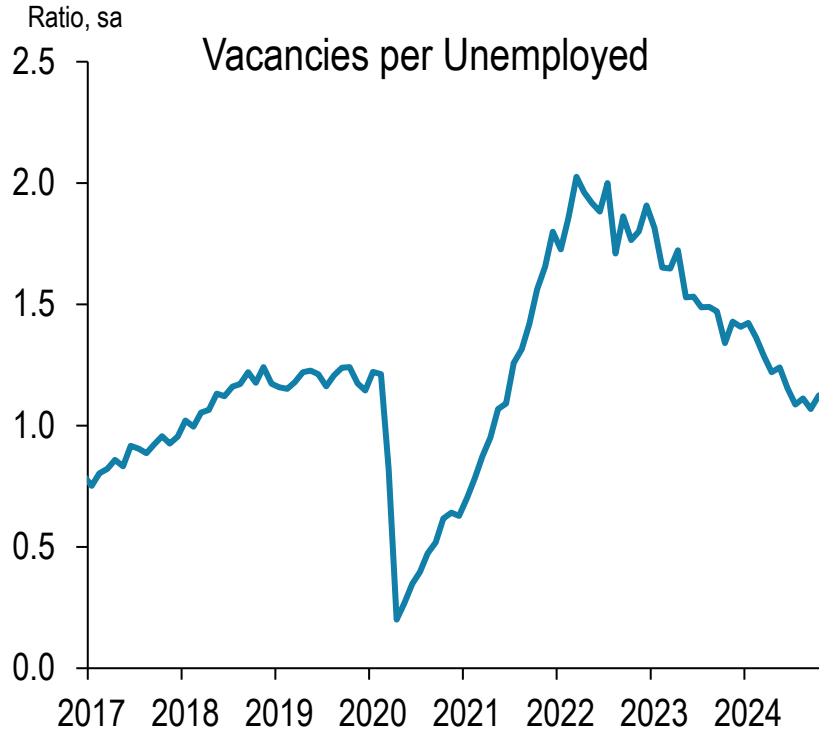
Sources: BEA, Haver Analytics



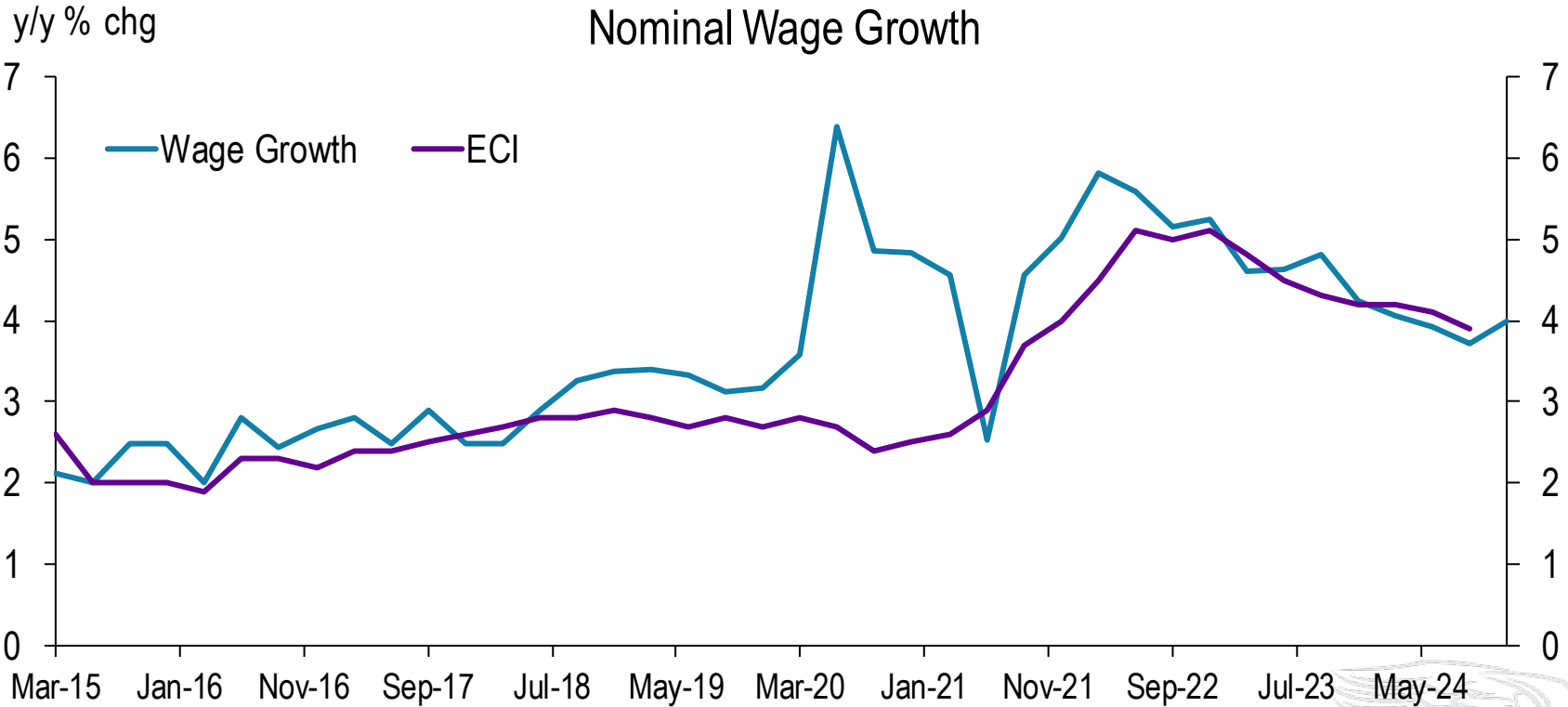
Services have been contributing more to inflation recently.



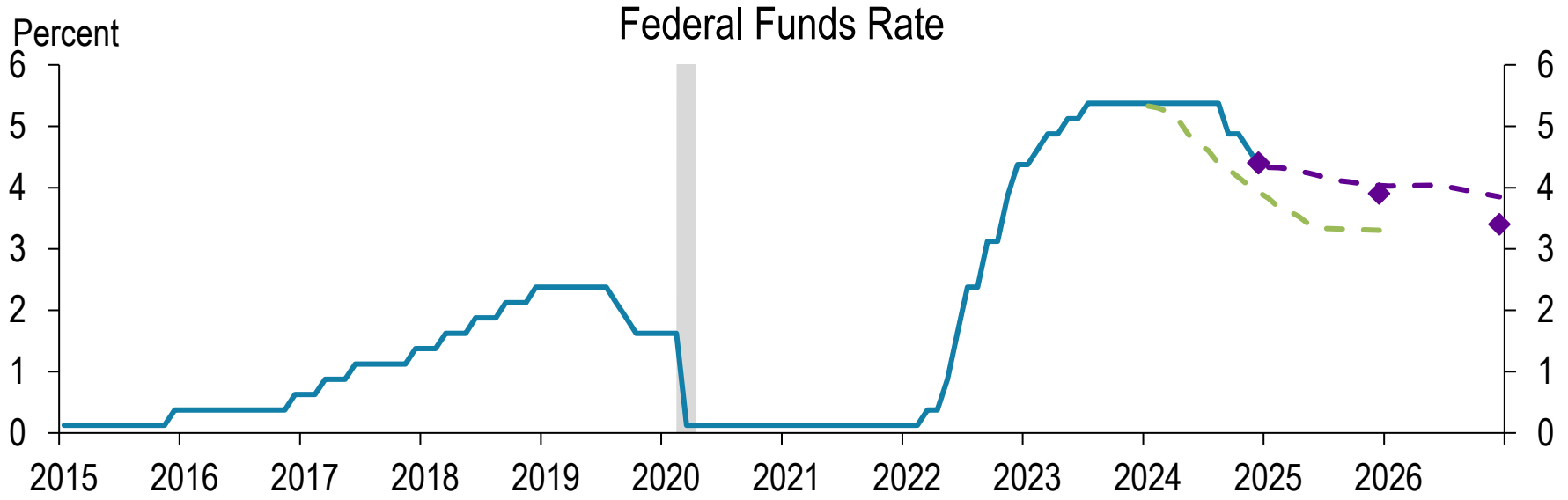
Labor markets are in better balance.



Wage inflation is trending down.



Monetary policy has been restrictive.



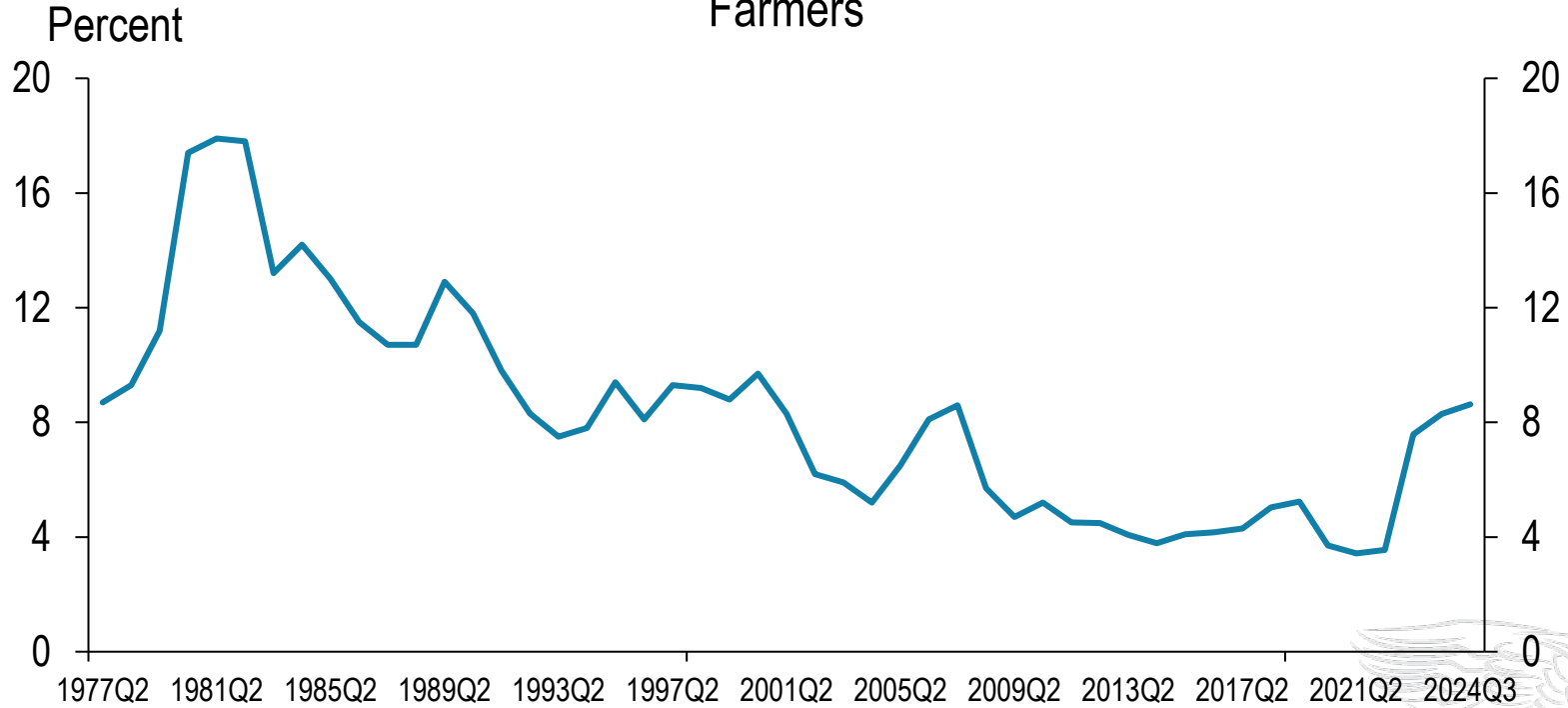
— Policy Interest Rate
 - - Current Market Expectations

◆ Dec 2024 FOMC
 - - Jan 2024 Market Expectations

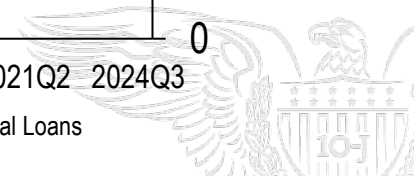


Higher benchmark interest led to higher interest rates for ag loans.

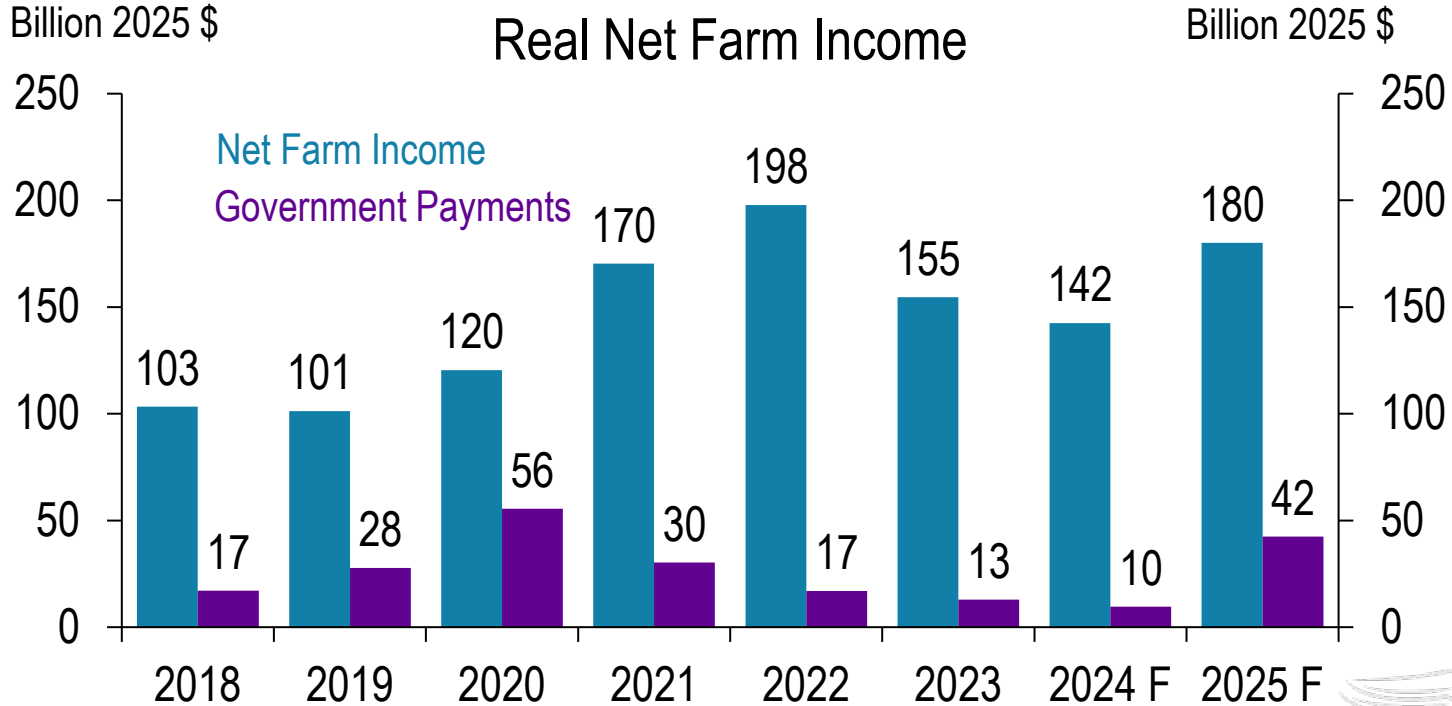
Avg. Interest Rate on Non-Real Estate Bank Loans Made to Farmers



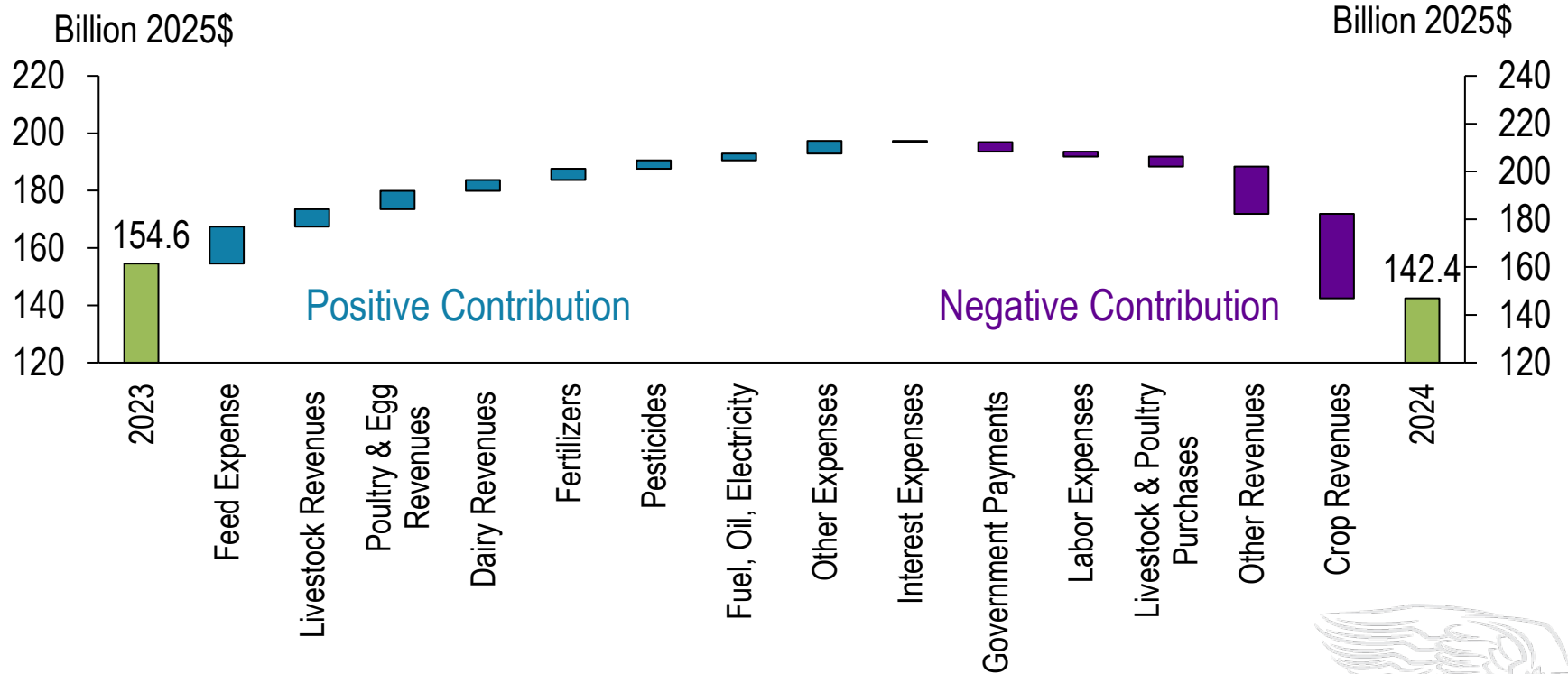
Sources: Survey of Terms of Agricultural Loans



Net farm income is down from its 2022 peak.

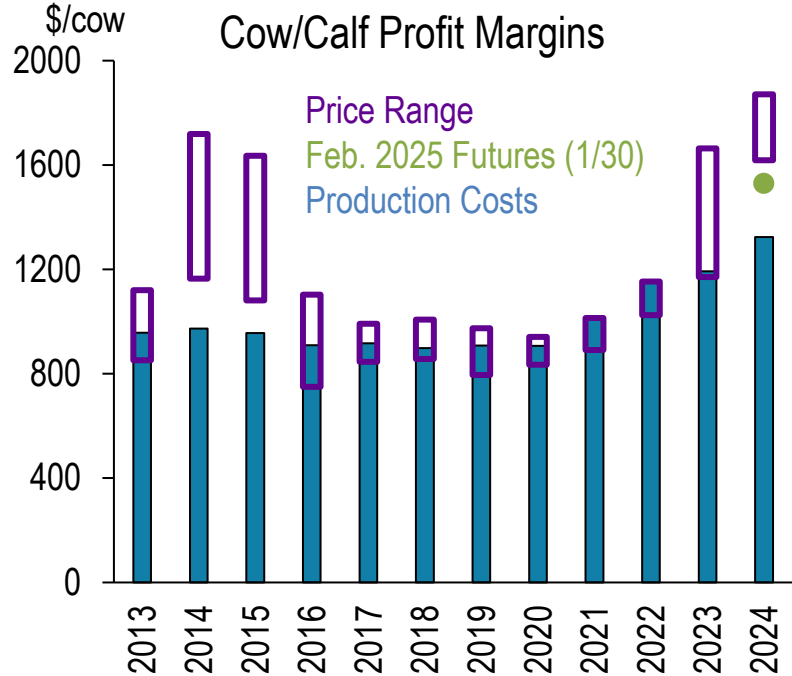
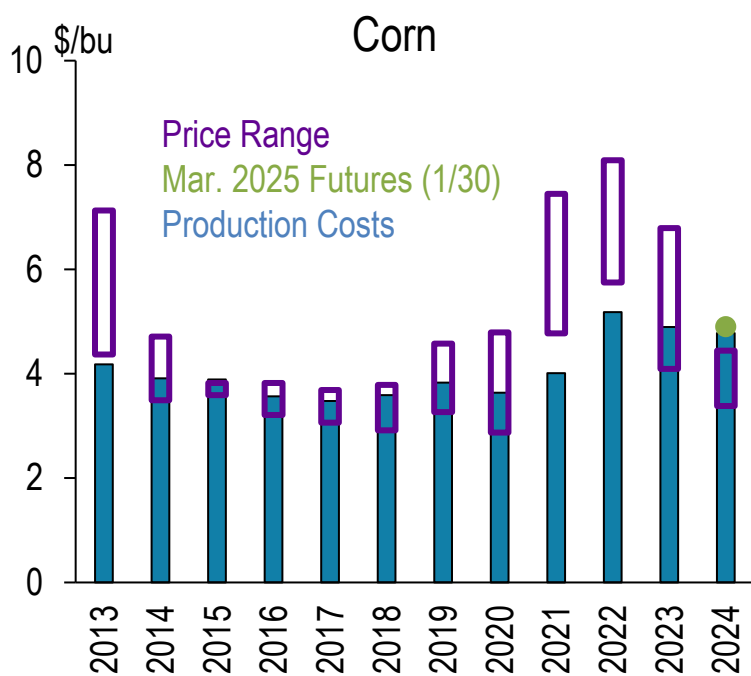


Decline in crop revenues dragged net farm income down in 2024.



Sources: USDA

Opportunity for profits has narrowed for crops but remain high for cattle.



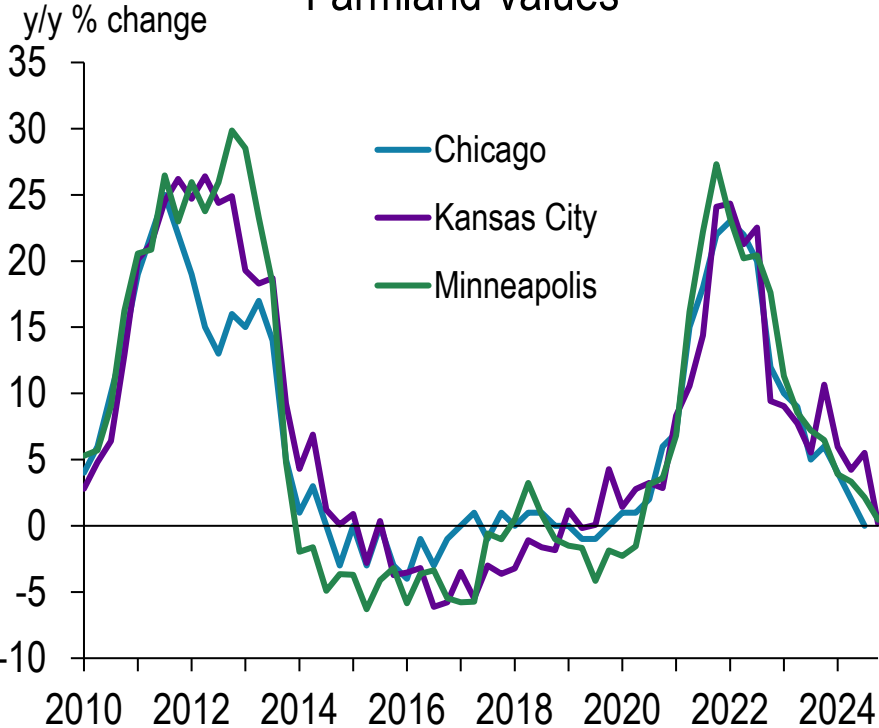
Note: Production costs are calculated from USDA's Economic Research Service (Commodity Costs and Returns) and national yield averages for each year shown, but exclude the opportunity cost of unpaid labor from the calculation. Cow/Calf costs are based on USDA's Economic Research Service (Commodity Costs and Returns) but exclude the opportunity cost of unpaid labor.

Sources: USDA, Haver Analytics and CME

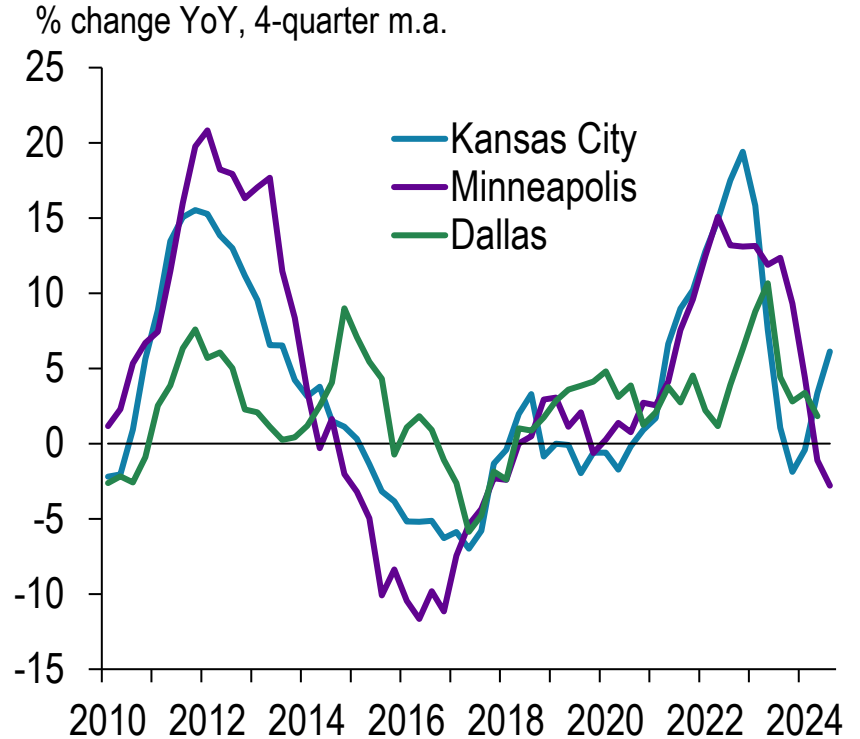


Farmland values are strong, but growth is softening.

Farmland Values



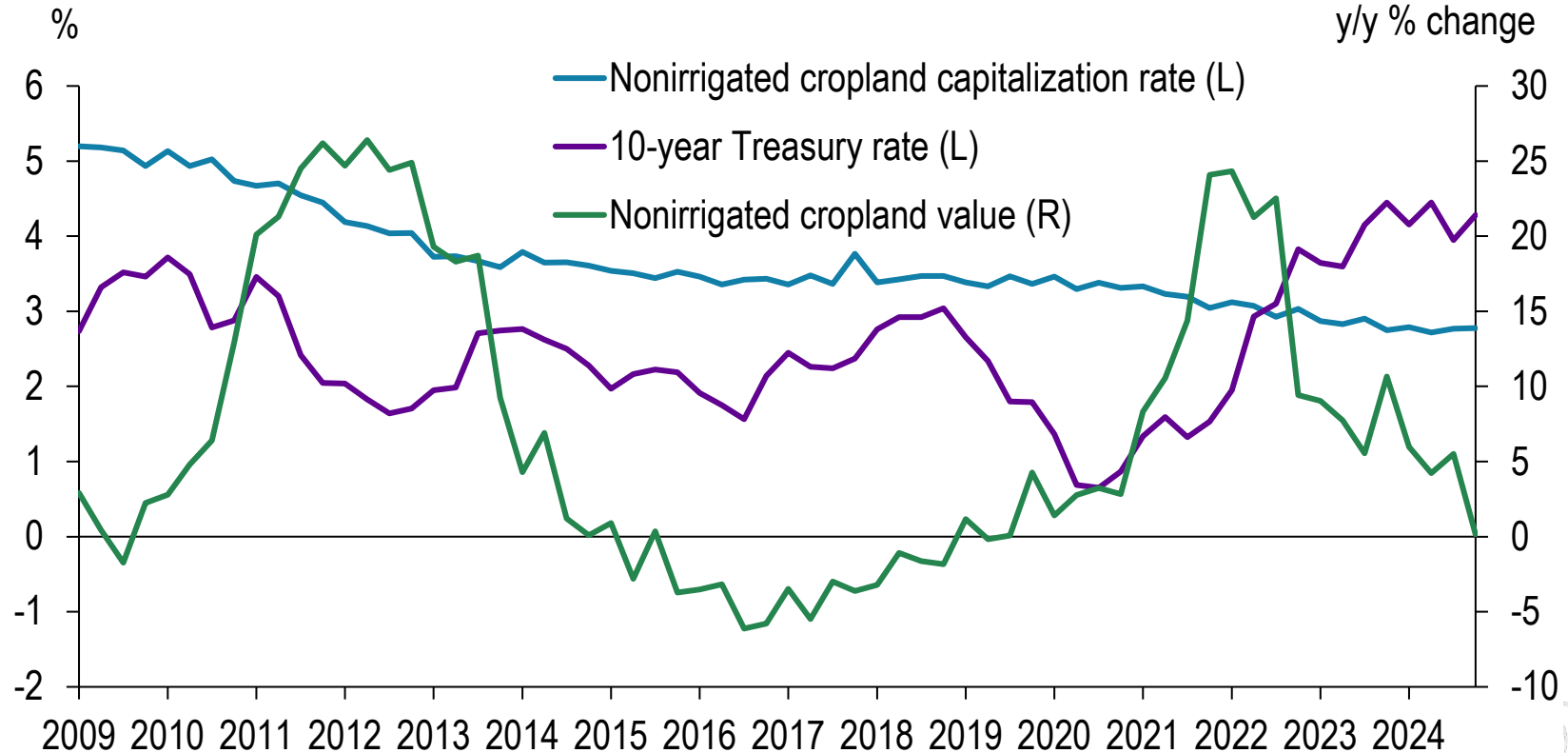
Cash Rents



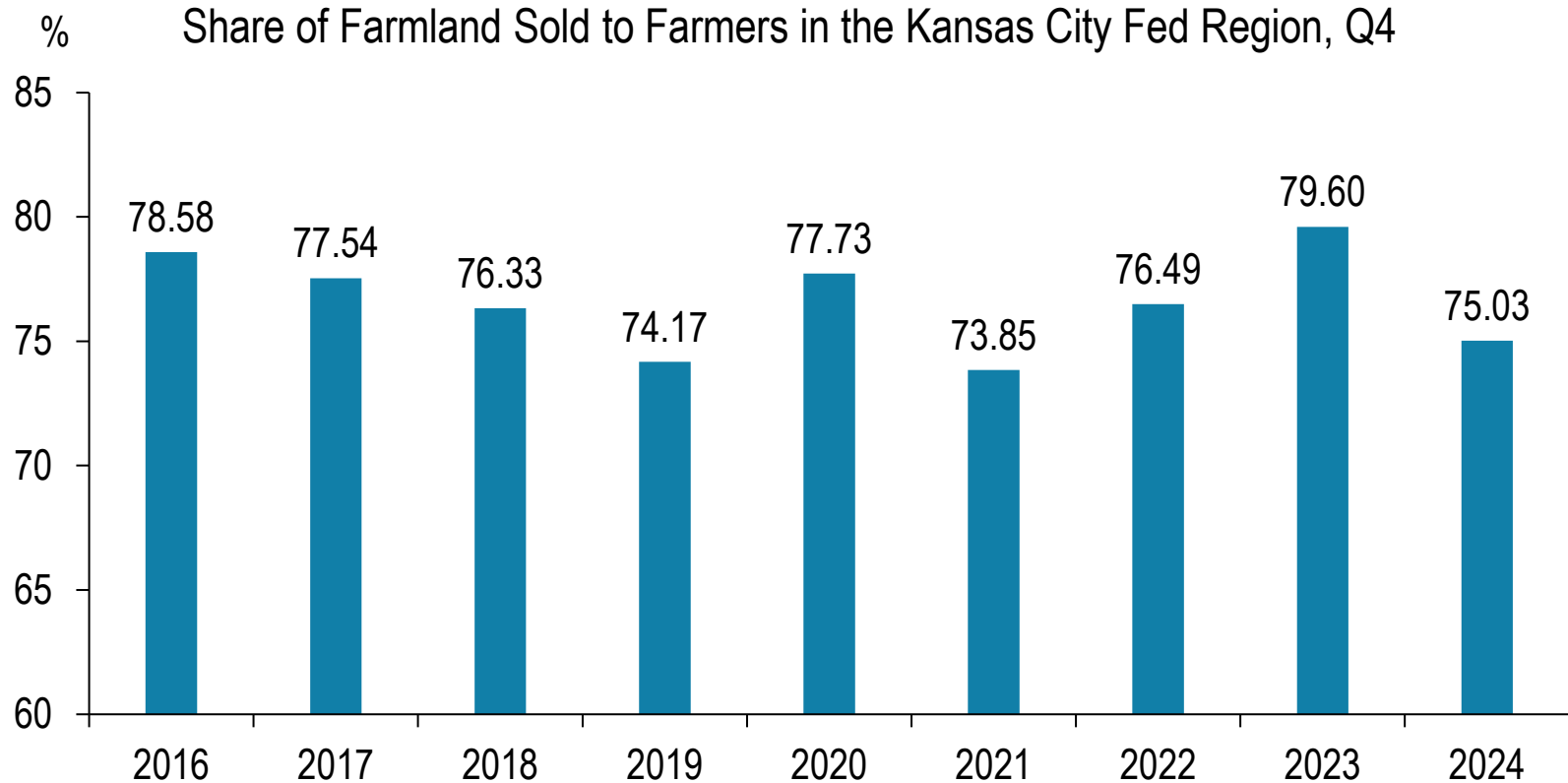
Sources: Federal Reserve Ag Surveys



The opportunity cost of farmland may be increasing more recently.



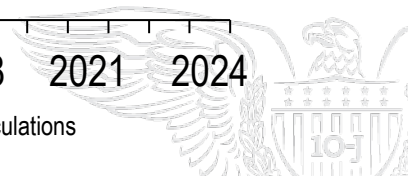
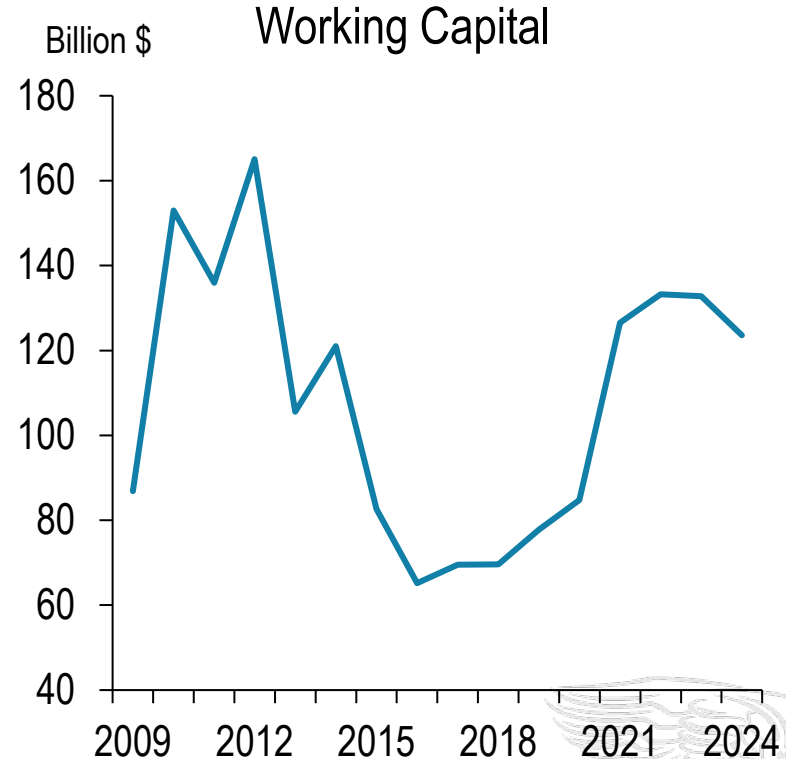
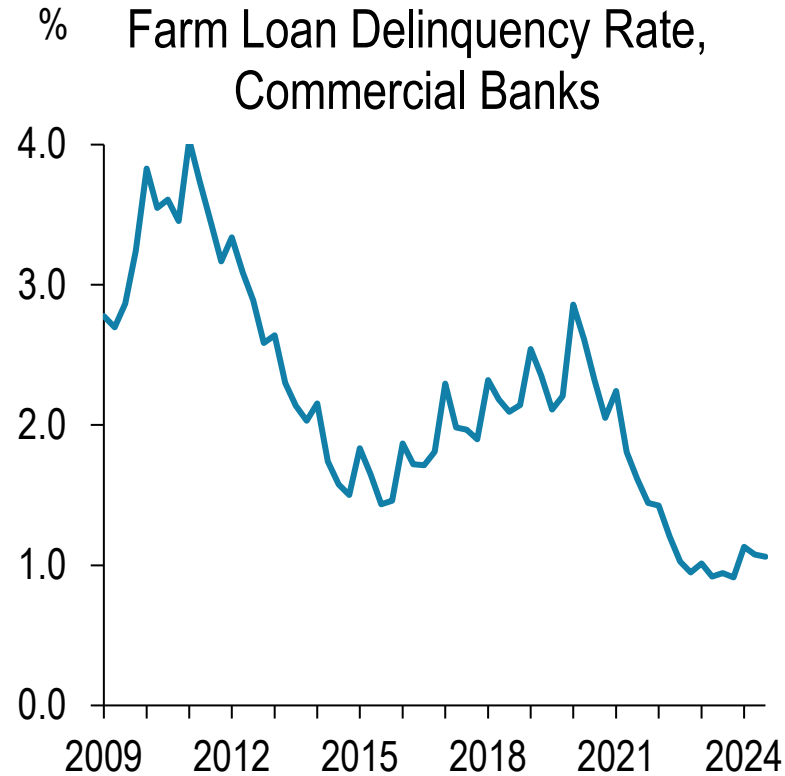
Demand for farmland still driven by U.S. farmers.



Sources: Federal Reserve Ag Surveys



Farm finances remain solid.

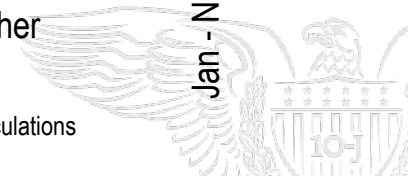
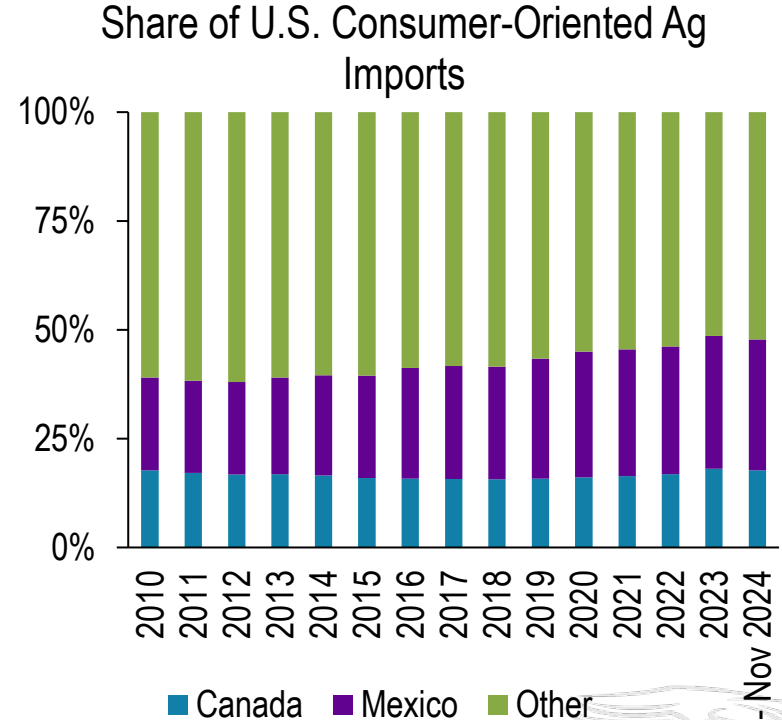
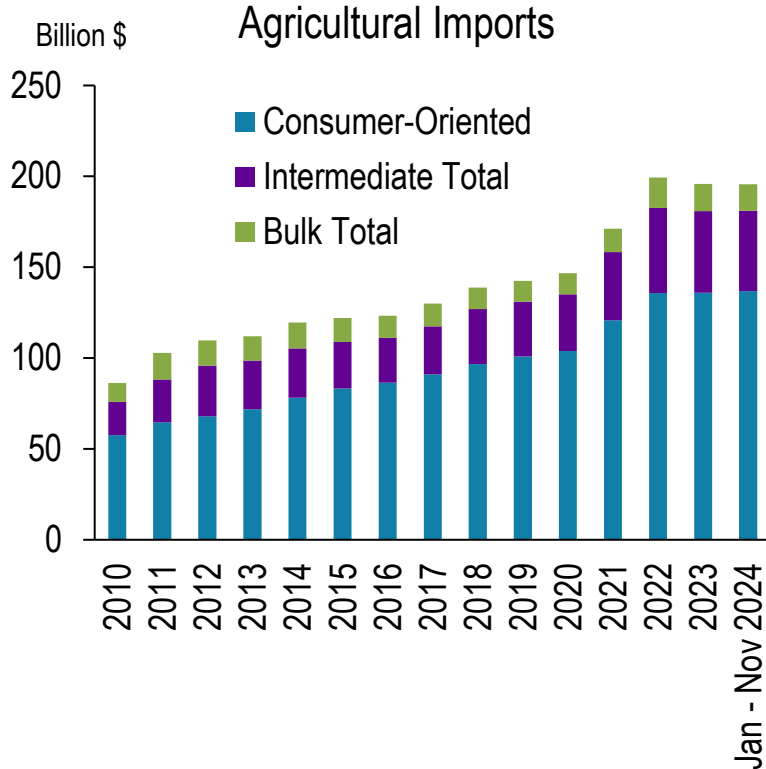


Risks abound for 2025 and beyond.

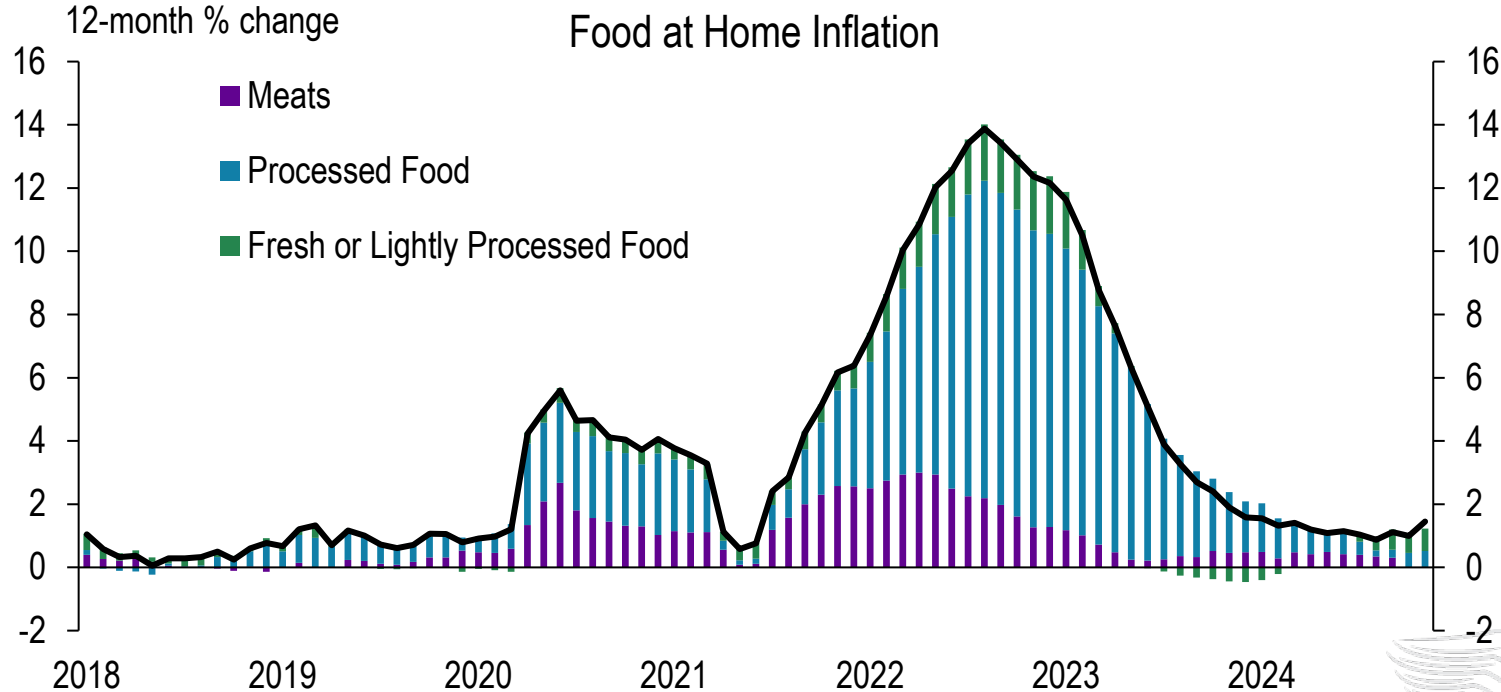
- Policy risks
- Long-term structural change



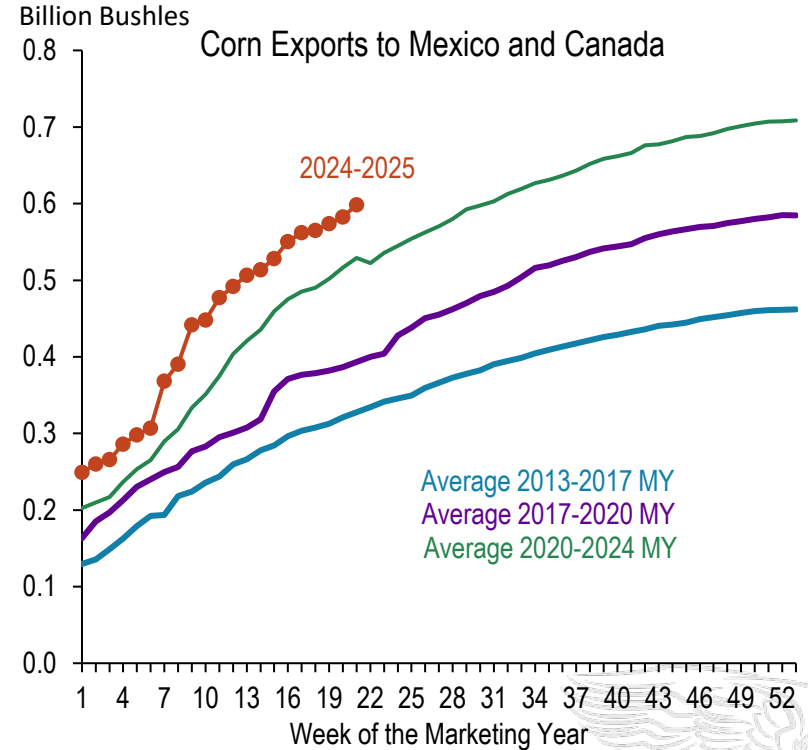
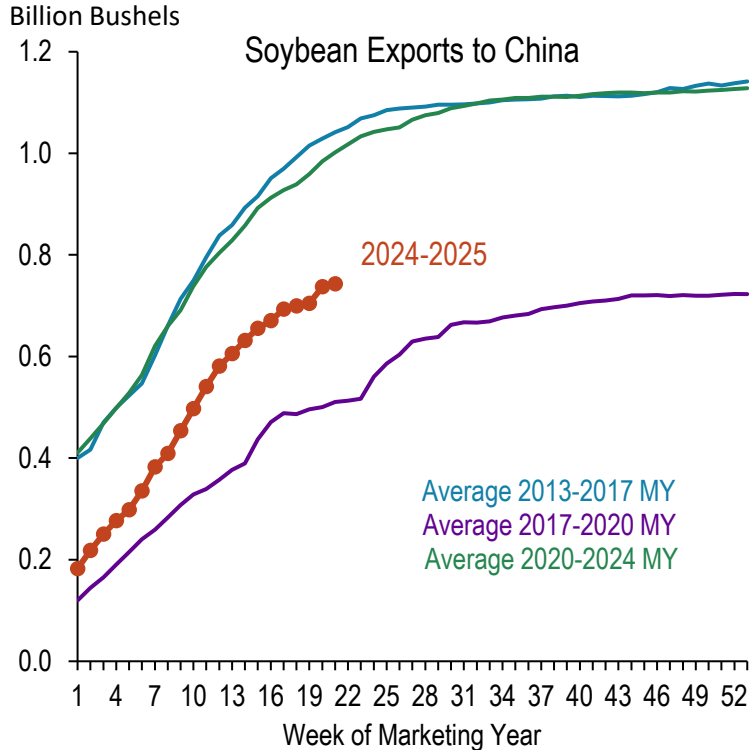
Tariffs may reshuffle agricultural trade.



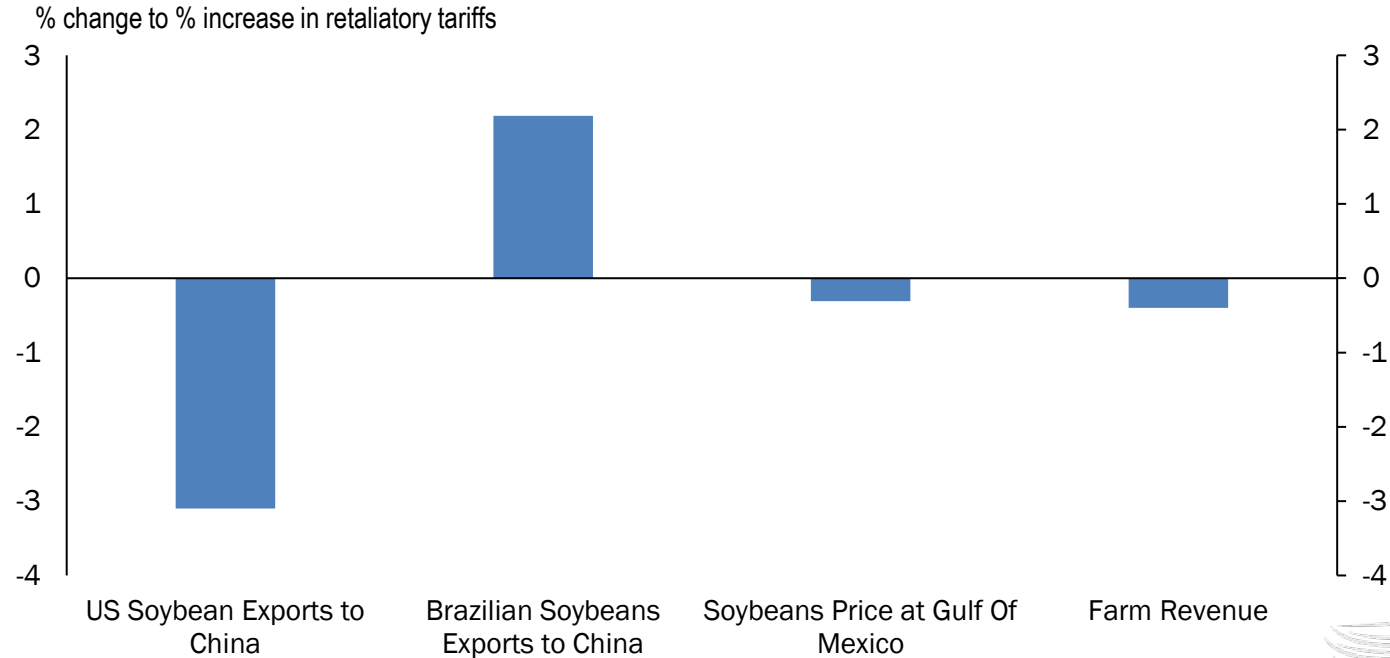
Tariffs may increase the price of certain food products, but impact on overall food inflation is uncertain.



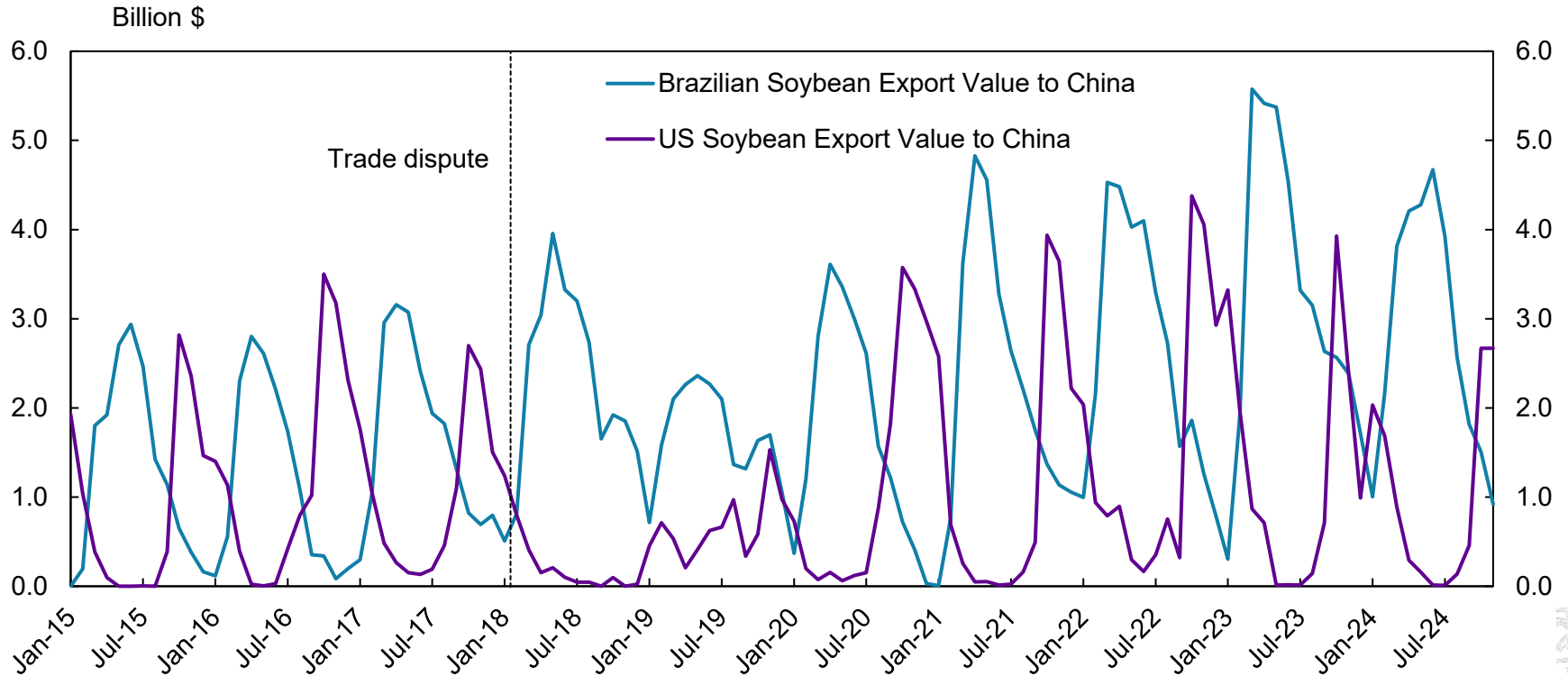
Tariffs may put downward pressure on agricultural exports.



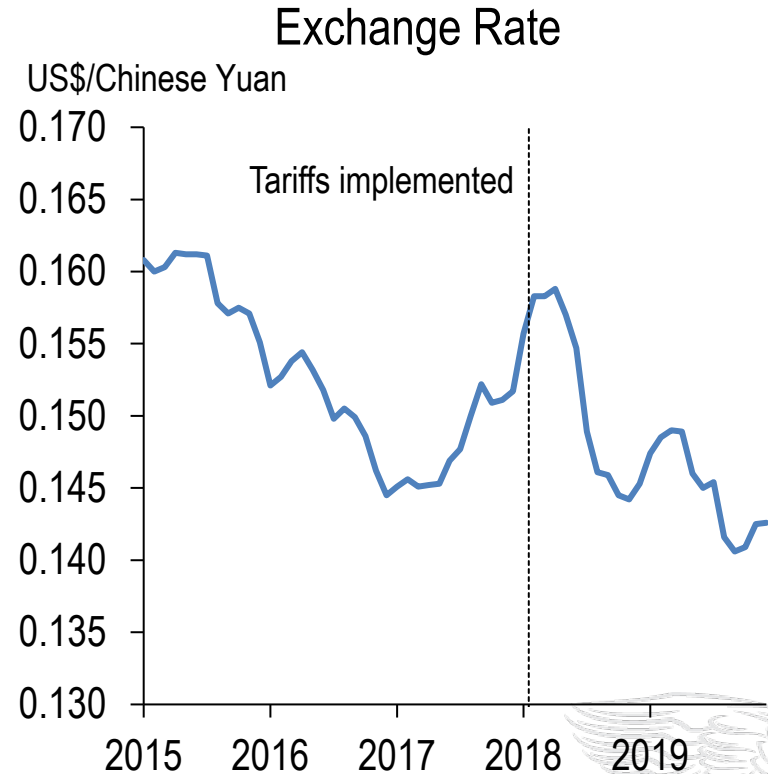
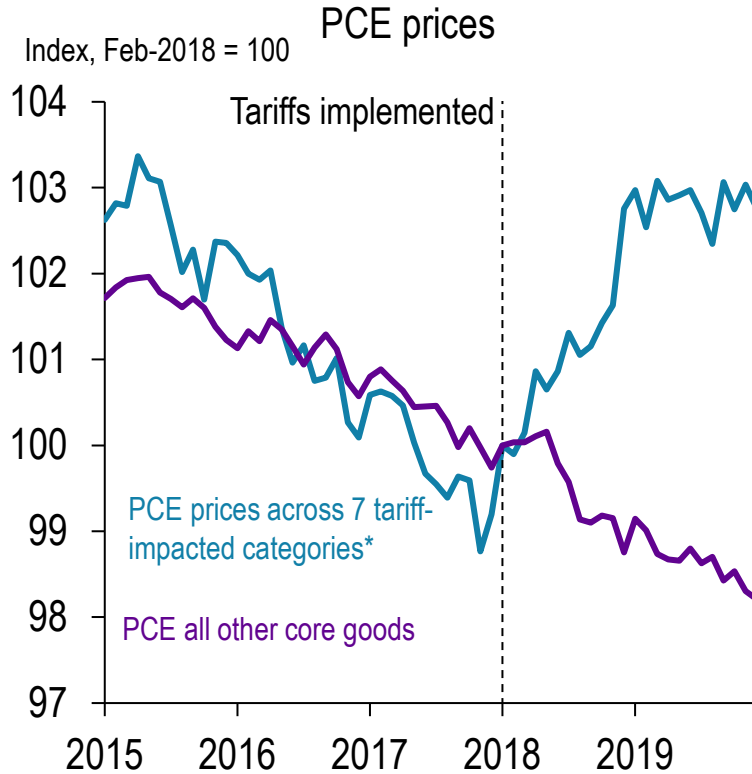
The 2018 dispute led to less exports to China, a replacement of U.S. soybeans with Brazilian soybeans, and declines in revenue.



The pandemic restored historical seasonal patterns, but China is importing more from Brazil.

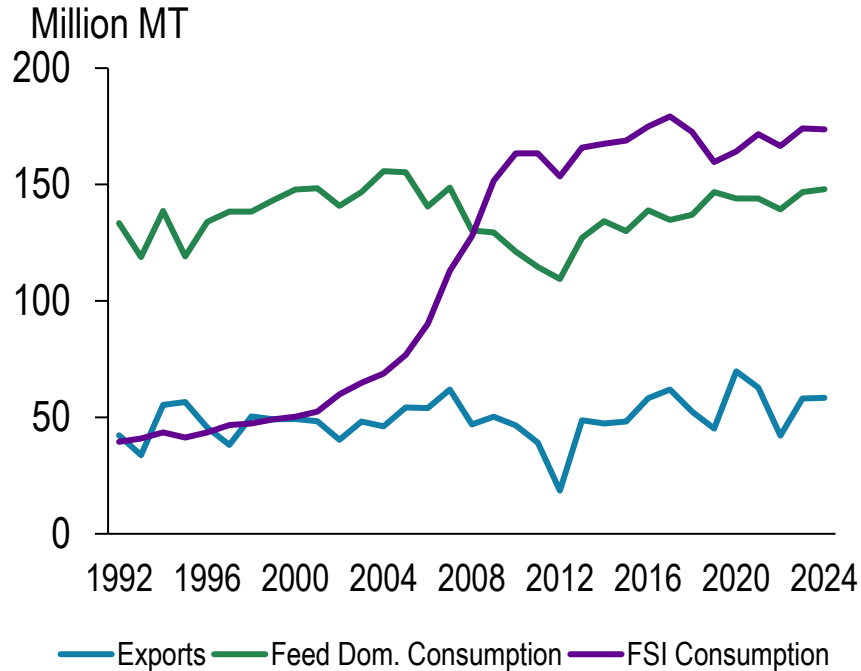


Tariffs can change domestic prices and also demand for foreign currency.

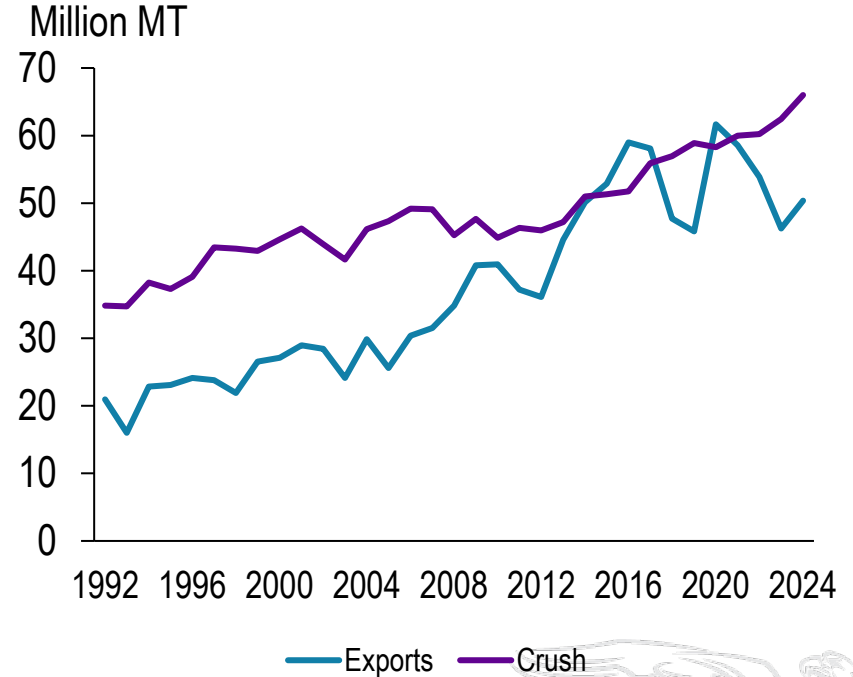


The composition of demand has changed over the last 20 years.

Sources of Demand, Corn



Sources of Demand, Soybeans



Sources: USDA

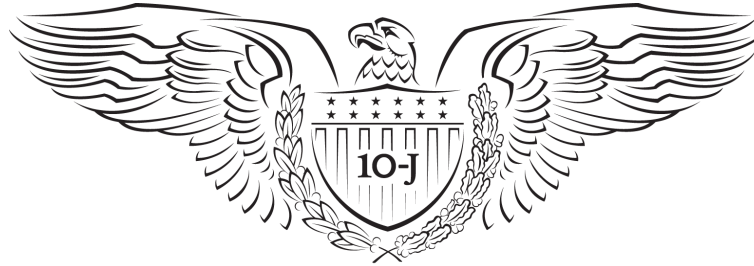


Conclusion

- Headline inflation has come down, helped by a better balance between supply and demand, particularly in labor markets.
- The US economy remains strong despite restrictive monetary policy.
- The US farm economy is softening but remains resilient.
- Supply will challenge the farm sector in the short run, but uncertainty around demand and policy is increasing.



KC Fed Research



Email Alerts

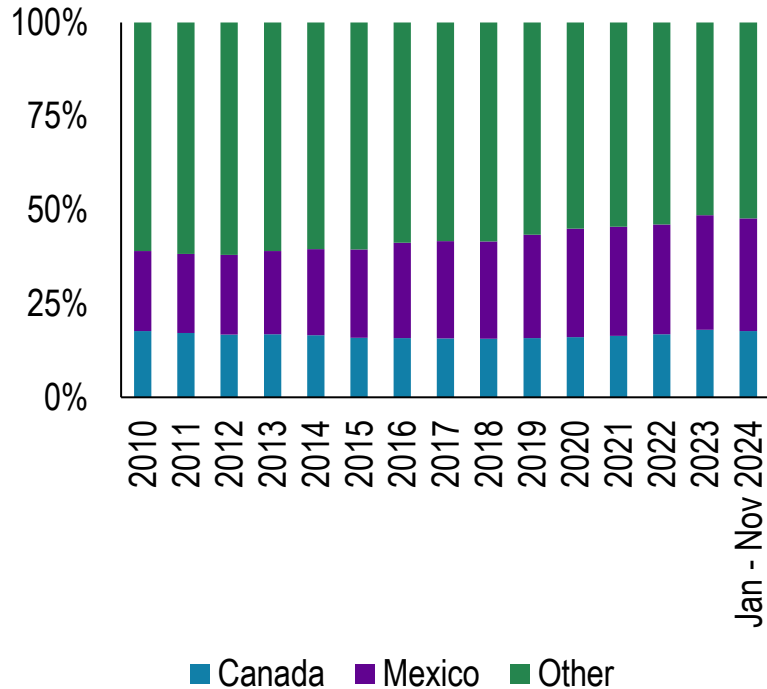


Resources from the Kansas City Fed's Economic Research Department

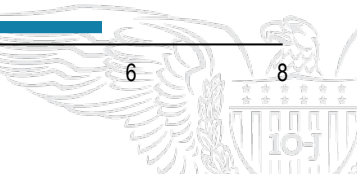
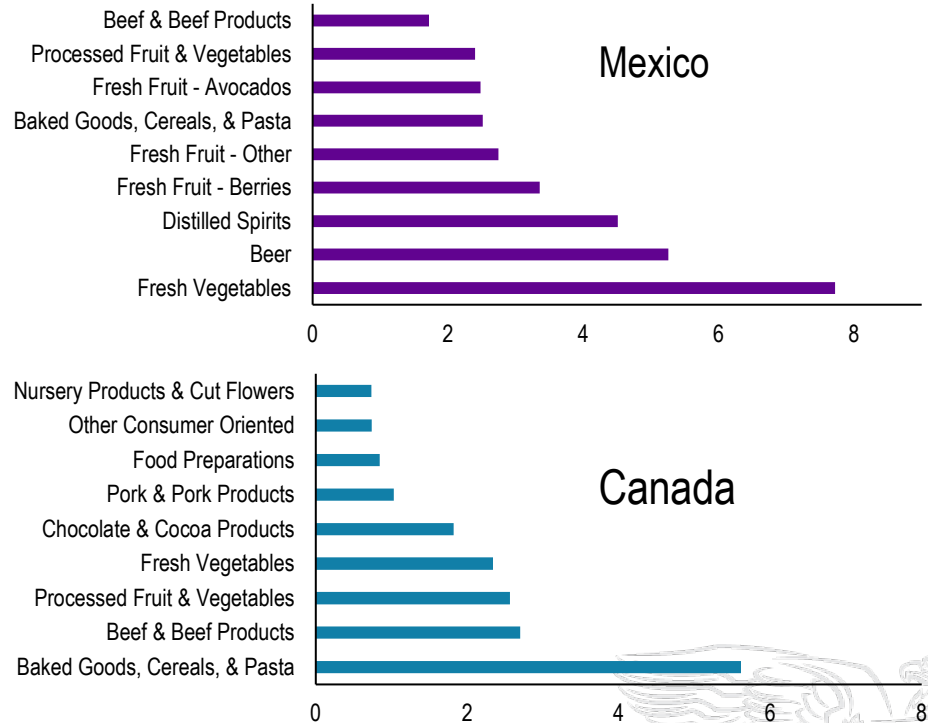
- [Charting the Economy](#)
Timely economic data curated by research staff at the Federal Reserve Bank of Kansas City.
- [Economic Bulletin](#)
Timely, accessible snapshots of the Kansas City Fed's latest economic findings and perspectives on national and international economic conditions and issues related to monetary policy, industries and markets.
- [Economic Review](#)
A quarterly research publication with articles on macroeconomics and monetary policy, regional and international economics, and banking and financial markets.

Mexico and Canada are big exporter of ag products to U.S.

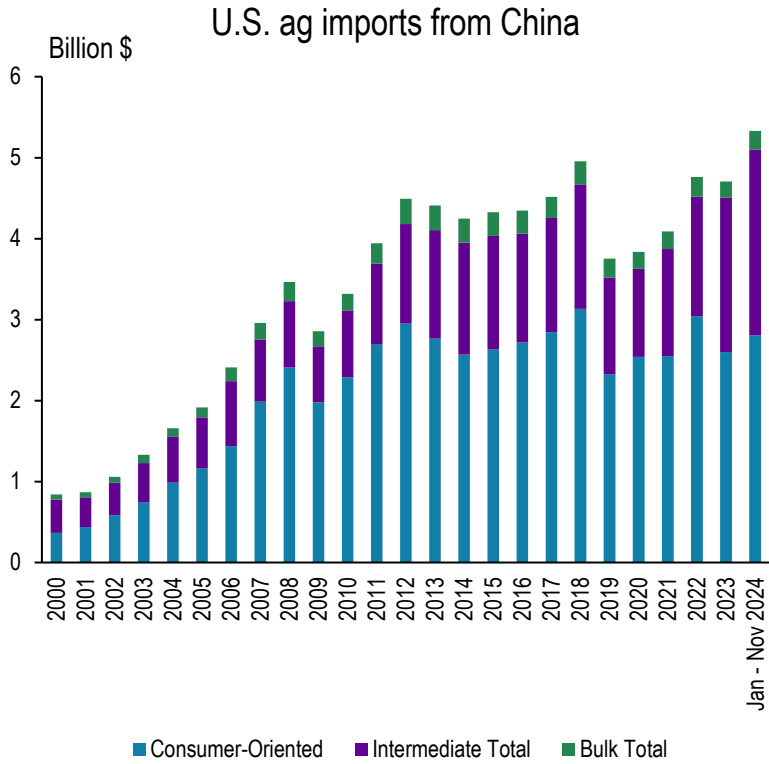
Origin of consumer-oriented imports



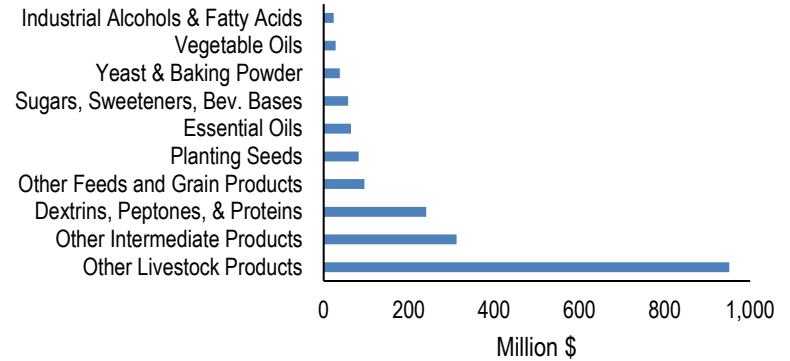
Top 10 consumer-oriented imports, 2023



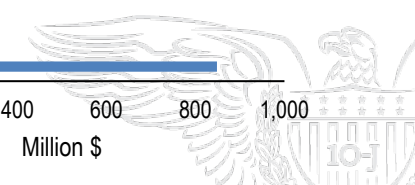
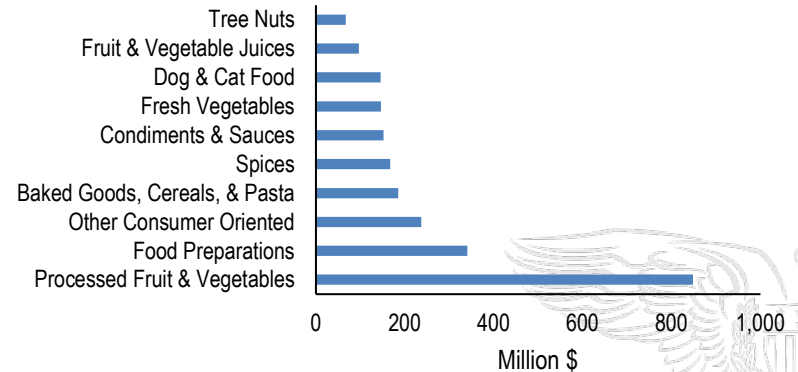
U.S. ag imports from China are more diverse.



Top 10 Intermediate Products, 2023



Top 10 Consumer-Oriented, 2023



Strong exchange rate compared to other exporters is a headwind to U.S. soybean exports.

